EUROPEAN
COMMISSION

Brussels, 24.11.2026
SWD(2026) 1211 final

COMMISSION STAFF WORKING DOCUMENT

Mind the Gap 2026: Country fiche – Germany

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

{COM(2026) 630 final} - {SWD(2026) 1201 final} - {SWD(2026) 1202 final} - {SWD(2026) 1203 final} - {SWD(2026) 1204 final} - {SWD(2026) 1205 final} - {SWD(2026) 1206 final} - {SWD(2026) 1207 final} - {SWD(2026) 1208 final} - {SWD(2026) 1209 final} - {SWD(2026) 1210 final} - {SWD(2026) 1212 final} - {SWD(2026) 1213 final} - {SWD(2026) 1214 final} - {SWD(2026) 1215 final} - {SWD(2026) 1216 final} - {SWD(2026) 1217 final} - {SWD(2026) 1218 final} - {SWD(2026) 1219 final} - {SWD(2026) 1220 final} - {SWD(2026) 1221 final} - {SWD(2026) 1222 final} - {SWD(2026) 1223 final} - {SWD(2026) 1224 final} - {SWD(2026) 1225 final} - {SWD(2026) 1226 final} - {SWD(2026) 1227 final} - {SWD(2026) 1228 final}

Country fiche: Germany

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Germany has an established process for regularly reporting on and evaluating tax expenditures.** Germany has in place a national framework for reporting tax expenditures, under its biennial Federal Subsidy Report covering a broad set of provisions across major tax types. More than half of the covered provisions have been reviewed, either externally or by the Ministry of Finance, and some tax expenditures are subject to mandatory evaluations.

- **Germany maintains a strong record on tax arrears,** with the closing stock at just 3.2% of total revenue in 2024 - far below the EU average of 30.7% - and 89.1% of arrears deemed collectable, reflecting both the low accumulation of arrears and highly effective recovery.

Areas for Improvement

- **The digital transformation of the tax administration is progressing only slowly. Fragmentation of tasks across the *Länder* is a long-standing problem.** While digital strategies do exist, implementing them nationwide implementation has faced obstacles in the recent past. Tax administrations at Länder level often have their own local IT systems. The KONSENS initiative – the common IT software strategy for Germany's tax administrations – was launched in 2007. However, it experienced a series of delays along the way and therefore regularly faced criticism, including by the Federal Court of Auditors. In April 2025, the Court reiterated its call for a binding overall plan outlining a schedule for the complete rollout of KONSENS' core IT processes across the federal states.

- **Germany lacks a national framework for estimating and monitoring compliance tax gaps.** Beyond its participation in the EU VAT gap exercise, Germany does not regularly estimate or publish national compliance gap estimates across the main tax types, limiting their use as a diagnostic tool for identifying compliance risks and assessing compliance strategies.

1. Introduction and policy context

1.1. Snapshot of the tax system

Germany's tax revenue structure is heavily biased towards labour taxes. Tax revenue (including social contributions) reached 39.6% of GDP in 2024, marginally above the EU average of 39.4% ([1]). The weight of labour taxation in Germany's tax mix is the largest in the EU and accounted in 2024 for 57.3% of total tax revenue, 5.8 percentage points (pps) above the EU average. Conversely, the share of revenues from consumption (25.1%) and capital (17.6%) taxes are significantly below the EU average (26.8% and 21.6%, respectively). In the area of capital taxation, Germany has one of the highest statutory and effective corporate tax rates in the EU, inheritance and gift taxes are complex and regressive and revenues from recurrent taxes on immovable property are relatively low. In the area of consumption taxes, VAT revenues are broadly in line with the EU average. For both capital and consumption taxes, revenues from environmental taxes have decreased significantly in recent years, prompted by the abolishment of the *EEG Umlage* (a surcharge on electricity consumption used to finance the expansion of renewable energy) for end consumers in 2022.

The tax-benefit system has a large redistributive effect in Germany, in a context of high tax wedge on labour. The effect of the tax and benefit system on reducing the Gini coefficient was of 10.9 pps in 2024, 3.1 pps above the EU average ([2]). The tax wedge ([3]) is above the EU average across all the income distribution, particularly among lower earners, which generates disincentives to work ([4]). The difference in the tax wedge between high-income (167% of average wage) and low-income earners (50% of average wage) is, at 10.4 pps, below the EU average of 12.5 pps. A reform of brackets for personal income tax (PIT) rates is currently under discussion ([5]). Income inequality, measured by the income quintile share ratio (S80/S20), is roughly in line with the EU average (4.68 vs 4.62 in the EU, income reference year 2024) ([6]). The at-risk-of-poverty and

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 40.1% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[3] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[4] The tax wedge for an earner of 50% of the average wage is, at 39.4%, 7.8 pps above the EU average. Earners of 100% of the average wage have a tax wedge of 46.6% (6.6 pps above the EU average), and earners of 167% of the average have a tax wedge of 49.8% (5.7 pps above the EU average).

[5] German PIT rates increase steeply in lower income margins. A marginal rate of 42% applies to incomes from about EUR 68 000 onwards. Critics point out that such a high tax rate now affects middle incomes, whereas in the past, only top earners were affected. The government coalition currently negotiates about changing brackets for the income tax rates. A recent draft law was issued in August 2026 with the aim of entering into force in 2027. It sets a 45% rate for income from EUR 250 000 (Reichensteuer I) and increasing it to 47% from EUR 280 000 onwards (Reichensteuer II).

[6] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

social exclusion (AROPE) rate ([7]) is slightly above the EU average (21.2% vs 20.9%) after recent increases.

In 2026, Germany received the following country-specific recommendations (CSRs) in the area of taxation ([8]):

- *Improve the tax mix and the effectiveness and efficiency of the welfare system to strengthen incentives to increase hours worked, including by second earners.*

Germany is among the Member States with an extended adjustment period in its Medium-Term Fiscal Sustainability Plan (MTFSP). The set of reforms and investments underpinning the extended adjustment period include extending the R&D tax credit and the extension of the tobacco tax ([9]). Both measures have been already implemented.

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Germany's tax system appears relatively complex, particularly from the perspective of the underlying tax code. Survey-based evidence from the Tax Complexity Index (TCI) places Germany in the lower half of the EU ranking, at 16th among Member States. The underlying components of the TCI indicate that complexity is driven more by the structure and detail of tax rules than by administrative procedures ([10]). Citizen perceptions also point to above-average compliance burdens. Only 37% of respondents report that completing their tax return is easy, compared with 49% in the EU on average, while reliance on professional assistance is slightly above the EU average at 10% ([11]).

Legislative activity in 2025 was significant. Germany recorded 16 tax changes entering into force or announced in 2025 ([12]). This follows 28 tax changes in 2024 and 16 in 2023. Many of the measures in 2025 form part of a broader package aimed at strengthening investment and competitiveness. They include enhanced accelerated depreciation for movable assets and electric vehicles, an increase in the R&D tax incentive, a gradual reduction of the corporate income tax rate from 2028 onwards, as well as changes to the controlled foreign company (CFC) rules intended to simplify their application. Other measures concern VAT, environmental taxation and personal income taxation. While many of these reforms pursue clear economic policy objectives and include simplification elements, the breadth of the package nevertheless requires businesses and taxpayers

[7] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.
[8] https://data.consilium.europa.eu/doc/document/ST-11117-2026-INIT/en/pdf
[9] See Council Recommendation of 10 October 2025, https://data.consilium.europa.eu/doc/document/ST-13308-2025-INIT/en/pdf.
[10] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).
[11] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.
[12] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

to adapt to a range of new provisions and transitional rules, which could lead to short-term adjustment costs for taxpayers.

Demand-side indicators provide additional evidence of somewhat elevated compliance needs. The accounting, bookkeeping and tax consultancy sector represents around 1.0% of gross operating surplus, slightly above the EU average of 0.9% ([13]). While this indicator is influenced by several factors, it is consistent with a somewhat more important professional services sector and a moderately higher demand for specialised tax and accounting expertise ([14]). Taken together, the evidence suggests that Germany's tax system combines relatively complex tax rules with comparatively active tax policymaking, requiring businesses and taxpayers to adapt to a broad range of tax provisions while maintaining a moderate reliance on specialised tax expertise.

1.2.2. National simplification efforts

National simplification efforts focus mainly on digitalisation and selected pre-filling services. ELSTER ([15]) allows personal income taxpayers and tax advisers to retrieve official data ([16]) ([17]) already available to the tax administration, including wage statements, pension payments, insurance premiums and investment income. A simplified pre-filled declaration is available for certain pensioners ([18]), and local pilots, such as the Hessen pre-filled assessment pilot, test further simplification for specific groups of taxpayers.

Recent business-facing simplification efforts are linked to e-invoicing and future transaction-based VAT reporting. The Growth Opportunities Act introduced the gradual roll-out of mandatory e-invoicing for domestic Business-to-Business (B2B) transactions. This reform is expected to support the future introduction of transaction-based VAT reporting and can reduce manual reporting over time. Its practical simplification impact will depend on the timely development of the reporting infrastructure and its integration with federal and Länder IT systems.

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([19]). The shadow

[13] A higher share of gross operating surplus indicates that the accounting, bookkeeping and tax consultancy sector generates a relatively larger share of operating profits and value added in the economy. While not a direct measure of tax complexity, it may point to a comparatively important professional services sector and, indirectly, to greater demand for specialised tax and accounting expertise.

[14] While some cross-border provision of accounting, tax consultancy and related services may be captured through imports and exports of services, available evidence suggests that such flows are relatively limited. In particular, data from the Eurostat's EU inter-country supply table at basic prices (reference year 2023) indicate that cross-national transactions in these services represent only a small share of overall activity, if any, suggesting that their impact on the interpretation of domestic sector size is likely to be limited.

[15] Elektronische Steuererklärung (electronic tax declaration). https://www.elster.de/eportal/start.

[16] https://www.elster.de/elsterweb/infoseite/belegabruf_(privatpersonen)?locale=de_DE.

[17] https://www.elster.de/elsterweb/infoseite/belegabruf_(steuerberater)?locale=de_DE.

[18] https://www.elster.de/eportal/infoseite/einfachelsterinfo.

[19] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6).

economy is an analogous but narrower concept — used in the economic literature and measured via macroeconomic models — that usually encompasses only market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations, necessary assumptions and methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

Specifically, recent data from official sources ([20]) allow to estimate the size of the non-observed economy (NOE) in Germany at 5% of GDP for 2020. The NOE estimates comprises the statistical deficiencies (2.3%), underground economy (1.5%), informal economy (1.2%), while illegal economy is only an estimated 0.1% of GDP. Germany thus records a NOE below the EU average (7.4% of GDP) ([21]). According to the estimates, the largest part of NOE is concentrated in 'Professional, scientific and technical activities' (0.71% of total GVA), followed by 'Construction' (0.71%) and 'Education' (0.67%). At industry level, the highest shares of NOE are presented by 'Agriculture' (42%), 'Other service activities' (41.6% of its GVA), and 'Construction' (35.3%).

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Germany are higher than the non-observed economy estimate discussed above**.** In 2022, the shadow economy in Germany represented 8.8% of GDP, according to estimates by Schneider and Asllani for the European Parliament ([22]). This ratio is half of the unweighted EU-27 average, and it has decreased compared to 2003 (16.7% of GDP). The report indicates that indirect taxes are among the main drivers of the shadow economy. Several other studies provide estimates of similar magnitude for the size of the shadow economy ([23]). However, using a currency demand approach (CDA), a recent study by EY ([24]) reports lower estimates for the German shadow economy at 6.8% of GDP in 2023 (EU average 7.9%), down from 9.6% in 2000 (EU average 13.2%).

2. Compliance tax gaps

2.1 Overview

Germany does not officially estimate or publish national tax gaps. Germany does not produce and report tax gap estimation figures, besides its involvement in the EU VAT gap estimation exercise. Tax gap estimation is not yet embedded in a comprehensive national compliance framework. Publicly available information does not indicate a dedicated national tax gap programme covering several tax types, nor regular publication of estimates by the Federal Ministry of Finance or the Länder tax administrations. This limits the use of tax gap estimates as a diagnostic tool for comparing risks across tax types and for assessing the effectiveness of

Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

[20] For data and documents used for calculations by TAXUD, see Section 1.3 "Measures of the non-observed economy and the shadow economy" in European Commission (2026) in Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[21] The (unweighted) EU average does not include Luxembourg, which has not yet sent data to EUROSTAT.

[22] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.

[23] See Fernandes op. cit. (2025) for an overview of various studies.

[24] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.

compliance strategies. Germany's participation in EU-level work nevertheless provides a basis for further methodological development.

2.2 Compliance tax gaps in VAT

For 2023, the VAT compliance gap ([25]) in Germany was estimated at around 10% of the VAT Total Tax Liability (VTTL) ([26]), or approximately EUR 31 billion. After falling from 10.5% in 2019 to around 6.5% in 2022, it increased sharply by nearly 3 percentage points in 2023; however, remaining slightly under the 2019 level ([27]). Germany's VAT compliance gap was slightly higher than the EU average of 9.5% in 2023. This rise was linked to a steep decrease in the growth in consumption of easily taxable, low risk goods (such as food and non-alcoholic beverages), continued growth in hard-to-tax service categories (such as recreation, restaurants and accommodation), and an increase in bankruptcy declarations.

Germany has taken important steps to improve VAT compliance through e-invoicing and future transaction-based reporting. The Growth Opportunities Act introduced the gradual mandatory use of e-invoices for domestic B2B transactions. This reform is intended to provide the data basis for a future electronic VAT reporting system and should improve the capacity of the tax administration to detect suspicious transaction chains more quickly. The measure is also relevant for the implementation of the VAT in the Digital Age package, but the practical compliance impact will depend on the timely development of the reporting platform and its integration with existing federal and Länder IT systems.

2.3 Compliance tax gaps in corporate and personal income tax

There is no systematic CIT and PIT compliance gap estimation in Germany. Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and monitoring compliance tax gaps can support tax administration in assessing the effectiveness of their tax policy actions.

Yet European Commission estimates suggest a below-average CIT compliance gap in Germany. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data and estimates of the non-observed economy produced by national statistical offices, the CIT compliance gap of Germany is estimated at around 5.9% of collected CIT revenues based on 2020 data ([28])([29]). Based on the same methodology, the

[25] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[26] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[27] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[28] European Commission estimates are based on a top-down methodology for approximating CIT compliance gaps using national accounts data. The approach relies on exhaustiveness adjustments made by national statistical offices to Gross Operating Surplus, Gross Value Added and Gross Domestic Product in order to account for non-observed economic activity in the compilation of GNI. The method provides a harmonised proxy for domestic underreporting of corporate income, but does not capture all sources of CIT revenue losses, in particular those related to international profit shifting or other forms of legal tax optimisation. For further information on the data sources, underlying assumptions and methodological caveats, see Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[29] For Germany, the exhaustiveness adjustments used in the estimation include items that are not directly related to undeclared corporate income, such as imputed social security contributions for civil servants. Consequently, the estimated CIT compliance gap should be interpreted as an upper-bound estimate rather than a precise measure of corporate tax non-compliance.

(unweighted) average CIT compliance gap is 9.2% of collected CIT revenues across all Member States. Compared to an earlier estimate of around 7.6% in 2016, this indicates a decline over time and a level clearly below the EU average.

There is limited evidence on the extent of tax evasion in Germany. Data on tax evasion are also very sparse, though some indicators point to challenges. In a recent reply to a Parliamentary Question, the Federal Government states that the tax amount evaded since 2019, following final court judgement, varied between EUR 0.7 billion (2019) and EUR 1.4 billion (2024) ([30]). These figures might not be capturing all the magnitude of the problem. The EU Tax Observatory estimated that only the extent of international tax evasion by individuals (using offshore deposits) could have amounted to 0.24% of GDP already in 2016, an equivalent of about EUR 8 billion in that year ([31]).

However, Germany, along with other EU Member States, suffered a significant loss due to the dividend withholding tax fraud ([32]). The so-called "Cum-Ex" and "Cum-Cum" displayed the vulnerability of the German withholding tax system in the context of tax fraud ([33]). Files published first by a team of journalists in 2018 estimated a worldwide loss above EUR 150 billion due to fraud on dividend payments between 2000 and 2020 ([34]). For Germany the revenues lost were estimated at EUR 36 billion ([35]). In Germany, criminal convictions have been issued in cases of Cum-Ex fraud ([36]). However, both penal investigation into the issue and recovery of lost income tax are subject to long proceedings. In 2023, the government's reply to a Parliamentary Question ([37]) stated that about EUR 3 billion had been reclaimed by then, following final court judgement. From the beginning of 2027 Germany introduces a reporting model in accordance with the reporting Standard of the FASTER-Directive to improve tax administration's capability to detect fraud.

Available Commission estimates point to a comparatively limited CIT compliance gap, but they should be interpreted with caution. The JRC methodology provides a useful comparable estimate across Member States, but for Germany the underlying exhaustiveness adjustments include items that are not directly linked to undeclared corporate income. The estimate should therefore be read as an upper-bound approximation rather than a precise measure of corporate tax non-compliance.

[30] Antwort der Bundesregierung (Drucksache 21/1707) auf die Kleine Anfrage der Fraktion Die Linke (Drucksache 21/1458). https://dserver.bundestag.de/btd/21/017/2101707.pdf.
[31] https://www.taxobservatory.eu/repository/estimating-international-tax-evasion-by-individuals/.
[32] See https://www.esma.europa.eu/sites/default/files/library/esma70-155-10272_final_report_on_cum_ex_and_other_multiple_withholding_tax_reclaim_schemes.pdf.
[33] These transactions affect sale of shares with ("cum") and without ("ex") entitlement to dividend payment. In "Cum-Ex", a number of investors would circulate shares shortly before dividend payments become due, using short-selling transactions and demanding a refund of the tax on dividends twice after having paid the tax only once on payment of the dividend (EU-Parliament). "Cum-Cum" transactions always involve investors with tax residence abroad. Those would temporarily lend dividend-entitled stocks to a domestic intermediary entitled for reimbursement of dividend tax (University of Mannheim).
[34] Figures cannot be verified by the European Commission and should be used with the necessary care.
[35] https://correctiv.org/en/latest-stories/2021/10/21/cumex-files-2/.
[36] In terms of criminal convictions, at least two decisions of the The Federal Court of Justice of Germany are already final: Bundesgerichtshof bestätigt Verurteilung wegen Steuerhinterziehung im Zusammenhang mit "Cum-Ex-Geschäften", Nr. 225/2024, Beschluss vom 29. Oktober 2024 – 1 StR 58/24; Bundesgerichtshof bestätigt Urteil im bundesweit ersten Cum-Ex-Strafverfahren, Nr. 146/2021, Urteil vom 28. Juli 2021 – 1 StR 519/20.
[37] https://dserver.bundestag.de/btd/21/005/2100548.pdf.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

While Germany does not currently estimate excise tax gaps, it devotes resources to strengthening EU cooperation on excise matters through its participation in the Fiscalis project group on Excise Gap and Risk.

Germany does not estimate other compliance tax gaps. Other areas remain unmeasured in formal compliance frameworks, with no public programs or pilot projects underway. This leaves room for potential future expansion of tax compliance monitoring, particularly as digital reporting and administrative reforms advance.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

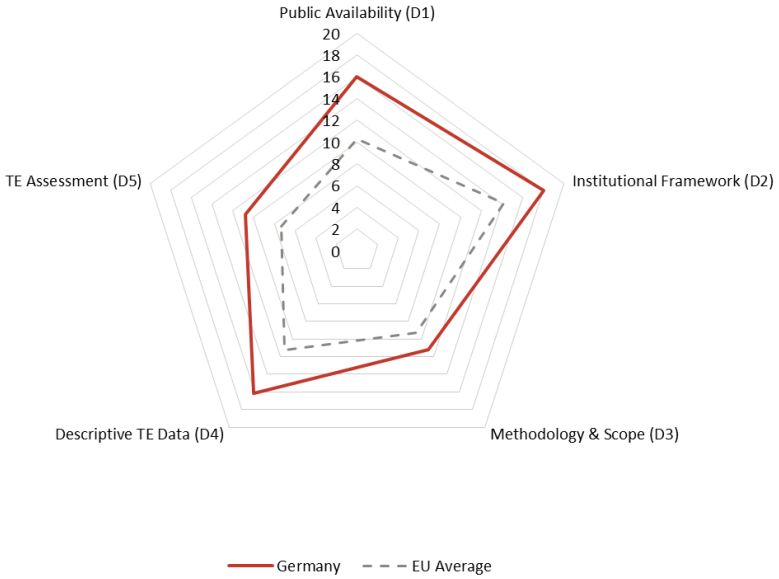
Germany reports tax expenditures (TEs) in its biennial Subsidy Report, which covers both direct subsidies and tax benefits. The Subsidy Report provides a regular and public source to track reported revenue forgone, legal bases, policy objectives and evaluation information for individual tax expenditures. The latest (30th) subsidy report lists a total volume of total volume of tax expenditures of EUR 18 billion in 2024 at the federal level (0.4% of GDP and 4.9% of federal tax revenue) ([38]). The volume of tax expenditures remains stable until 2026 in nominal terms and declines slightly in relation to tax revenue ([39]). There are 107 tax expenditures reported, covering most major tax types, including PIT, CIT, VAT, and energy taxes ([40]).

The German tax expenditure report limits its scope to tax provisions which support the economy. The legal reporting mandate is set by § 12 of the Stability and Growth Act (StabG), which limits the report to subsidies for *private enterprises and economic sectors*. For the report, a tax provision is counted as a *Steuervergünstigung* only where it has subsidy character in the sense that it favours a particular sector, or business generally against the wider public. Provisions whose benefit stays with households as consumers or individuals, or which pursue social, cultural, religious, or similar aims, fall outside the counted total. Some such provisions are listed in an annex (Anlage 3, "*Sonstige steuerliche Regelungen mit Steuermindereinnahmen*"). The report is explicit that a comprehensive listing of all reliefs from a public-finance perspective is not its aim. For a total of 52 tax expenditure provisions revenue estimates are provided but excluded from the headline figure. The annex captures provision like the deductibility of church tax (ca. EUR 4.5 billion and 12.5m taxpayers affected), the VAT exemption for medical treatment (ca. EUR 21.8 billion) and relief for donations and non-profits (ca. EUR 2.1 billion).

[38] These figures differ from the estimates of the VAT rate gap and national policy-driven VAT exemption gap produced under DG TAXUD's VAT gap in Europe study and presented in section 3.2. This is due to differences in the methodology applied.
[39] Steuereinnahmen - Statistisches Bundesamt.
[40] https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/30-subventionsbericht.pdf?__blob=publicationFile&v=3.

Germany provides generous inheritance tax relief, including for the transfer of businesses, resulting in significant tax expenditures. There are various mechanisms which allow a full exemption from inheritance tax, for example for business assets valued at above 26 million euros, if certain requirements are met. The key requirements are to continue business operations and to keep the staff employed for at least 7 years as well as the recipient proving that they lack the necessary liquidity for paying the tax without selling parts of their business. Between 2021 and 2023, 60 cases involving this kind of abatement/waiver were reported, relating to asset transfers totalling EUR 12.7 billion. Inheritance taxes amounting to EUR 4.4 billion were initially assessed on these assets, of which the vast majority (EUR 4.0 billion) were subsequently waived on the basis of the exemption requirement assessment ([41]).

Figure 1: Germany vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

Compared to other Member States, tax expenditure reporting in Germany is well developed (overall ranked 2nd according to the GTETI score). According to the GTETI analysis, transparency in TE reporting in Germany is above the EU average overall. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([42]). Maximum value for each dimension is 20. Germany performs above the EU average on 'Public Availability', 'Institutional Framework', 'Methodology and Scope', 'Descriptive Tax Expenditure Data', and 'Tax Expenditure Assessment'. The strong performance on Tax Expenditure Assessment reflects granular provision-level revenue forgone data, an evaluation framework, ex-post evaluations. The strong performance on 'Institutional Framework' reflects a clear legal requirement to report, mandatory parliamentary submission, integration in the budget proposal, integration in the medium-term strategy. The strong performance on 'Descriptive Tax Expenditure Data' reflects comprehensive policy objective

[41] Deutscher Bundestag, Drucksache 20/14895 (Anlage).

[42] See the Global Tax Expenditures Transparency Index (GTETI) companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches) for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

information, information on legal duration and sunset clauses, legal references for most TEs. The strong performance on 'Public Availability' reflects timely data, reader-friendly presentation, active promotion by authorities. However, cross-country score-based comparisons of tax-expenditure reporting frameworks should be interpreted with caution, as institutional, legal and budgetary frameworks differ across Member States.

A considerable share of the TE volume is reviewed, often by external research institutes. More than half of all TE provisions, or around 80% by volume, have been reviewed. Reviews are often executed externally, often by research institutes, while only a moderate share is evaluated internally by the Ministry of Finance ([43]). Some specific tax expenditures, like the R&D tax credit ('Forschungszulage'), are subject to mandatory impact evaluations. The German Federal Court of Auditors ('Bundesrechnungshof') also conducts ad hoc audits. For example, it reviewed the administration and effectiveness of the R&D tax incentive in 2021, addressing a lack of targeting ([44]). In April 2025, the Court flagged up to EUR 30 billion in potential savings through better management or reduction of tax concessions, urging stronger transparency and evaluation of tax expenditures ([45]).

3.2 Policy tax gaps in VAT

Germany introduced some temporary changes to its VAT rate structure in recent years. The temporary reduced VAT rate of 7% applied to supplies of natural gas via the network and to district heating from 1 October 2022 until 31 March 2024; electricity was not covered by this temporary VAT-rate reduction. The official VAT application guidance ([46]) confirms the application to gas and heat, but not to electricity. Together with the zero VAT rate for certain supplies and installations of solar modules applicable from 2023, this contributed to the utilities component of the VAT rate gap, particularly in 2023.

Estimates reckon that revenues forgone due to the application of reduced rates and national policy-driven exemptions reached nearly EUR 120 billion in 2023 ([47]). The national policy-driven VAT exemption gap ([48]) was estimated at around EUR 70 billion in 2023, or 12% of the notional ideal revenue ([49]), while the EU average was 11%. The VAT rate gap ([50]) was estimated at around EUR 50 billion in 2023, or 8% of the notional ideal revenue, lower than the EU average of 12%.

[43] FiFo Presentation and Evaluierung von Steuervergünstigungen II (2017 - 2019).
[44] https://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2021/steuerliche-forschungszulage-volltext.pdf.
[45] Bericht des Bundesrechnungshofes, April 2025, Einnahmenbasis stärken - für einen handlungsfähigen Staat.
[46] Bundesfinanzministerium - Umsatzsteuer-Anwendungserlass.
[47] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[48] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations. The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.
[49] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.
[50] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

Tax-simulations using the EUROMOD tool indicate that Germany's reduced VAT rates in 2025 are concentrated in a small number of categories, led by 'food and beverages' ([51]). 'Food and beverages' accounts for the largest share of forgone revenues at 60.6%, well above the EU mean share of 39.8%. 'Recreation, sport and culture' comes second at 23.6%, well above the EU mean share of 13.3%. 'Restaurants and accommodation' rank third at 7.4%, well below the EU mean share of 20.4%. These three categories account for 91.6% of Germany's total forgone revenue.

Germany's reduced VAT rates lower inequality as measured by the Gini coefficient by 0.25 pps, below the EU average reduction of 0.50 pps. 'Food and beverages' contribute 0.24 pps (93.7% of the total), below the EU mean contribution of 0.32 pps.

3.3 Policy tax gaps in corporate income tax

CIT-related tax expenditures reported in the Federal Subsidy Report appear relatively limited and are concentrated in specific business-tax provisions ([52]). Following a revised research-related subsidy concept, the R&D tax credit (Forschungszulage) is no longer reported as a tax expenditure in the 30th Federal Subsidy Report. Among the 20 largest reported tax expenditures, the main corporate-tax items are the EUR 3 million exemption threshold under the interest limitation rule, with estimated revenue forgone of EUR 600 million in 2026, of which EUR 164 million relates to the federal budget, and the restructuring and group clause under Section 8c KStG, with estimated revenue forgone of EUR 440 million, of which EUR 123 million relates to the federal budget. Other sizeable business-related tax expenditures in the report mainly concern energy taxation, tonnage taxation and company-car taxation rather than the corporate income tax base itself.

3.4 Policy tax gaps in personal income tax

PIT-related tax expenditures reported in the Federal Subsidy Report cover a broad range of provisions, mainly linked to work, household services, pensions and employee participation. Among the 20 largest tax expenditures reported in the 30th Federal Subsidy Report, the largest PIT-related item is the exemption of statutory or collectively agreed supplements for Sunday, public-holiday and night work, with estimated revenue forgone of EUR 3.25 billion in 2026, of which EUR 1.38 billion relates to the federal budget. Other relevant PIT-related provisions include the tax relief for household craft services, with estimated revenue forgone of EUR 2.53 billion, the promotion of private funded pension savings, with estimated revenue forgone of EUR 520 million, and employee share ownership relief, with estimated revenue forgone of EUR 495 million. The favourable tax treatment of electric and plug-in hybrid company cars is also sizeable, at EUR 1.73 billion in 2026, but is better presented as a mobility- and business-related tax expenditure with PIT effects rather than as a pure PIT measure.

[51] The VAT rate gap is analysed here using EUROMOD's consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[52] https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/30-subventionsbericht.pdf.

Simulations based on the EUROMOD model suggest that PIT-related tax expenditures in 2025 have negligible distributional implications in Germany overall ([53]). PIT-related tax expenditures imply revenue forgone equivalent to 12.9% of actual PIT revenues, well below the EU average of 19.1% ([54]). The largest share of revenue forgone arises from pensions-related TEs (5.2% of PIT revenue). PIT-related tax expenditures increase the Gini coefficient by 0.08 pps, whereas the EU average is a reduction of 0.46 pps. The relatively limited revenue forgone is nevertheless associated with a slight increase in income inequality.

While TEs in Germany have a negligible distributional effect overall, TEs in some policy areas have regressive effects. A regressive effect can be observed for family-related TEs (2.4% of PIT revenue), with the Gini coefficient increasing by 0.10 pps. Tax expenditures with regressive distributional implications could serve policy objectives other than redistribution. Indeed, TEs are employed with a broad range of policy objectives. The fact that a given TE might have a regressive distributive effect does not imply that it does not successfully implement its stated objective.

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Germany operates a rather fragmented identification system, where individuals use a lifelong tax ID (Steuer-ID, or 'IdNr.') for personal income tax (PIT), while a tax number (Steuernummer) is assigned by the local tax office and can change, for instance, when responsibility transfers from one tax office to another. Businesses rely on a the domestic Steuernummer for corporate income tax (CIT) while a separate identification number ('USt-IdNr.') is required for VAT purposes. Individuals engaged in economic activity receive a business identification number (Wirtschafts-Identifikationsnummer or 'W-IdNr.') which is linked to their VAT identification number where applicable. The W-IdNr. simplifies the identification of companies in digital tax processes and aims to reduce reliance on local tax numbers. In the long term, the IdNr. and W-IdNr. will replace traditional tax numbers in communications with taxpayers. To engage in intra-EU trade, entrepreneurs must obtain a separate VAT identification number for VAT purposes.

Germany's tax registration combines digital tools with a decentralised structure, requiring manual business filings but enabling cross-state data integration. The tax registration process is digitalised but decentralised, with businesses submitting VAT registrations electronically via commercial software and the central ELSTER portal ([55]), where they can also view and modify VAT-related data. While there is no automatic VAT registration upon company incorporation, the system integrates taxpayer records with other subsystems of the tax administration, enabling cross-border data access for tax offices. The taxpayer database is maintained through systematic reviews and corrections, supported by various IT for large-scale data

[53] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748 and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).

[54] According to the European Commission's taxation trends data, PIT revenues in Germany amounted to approximately EUR 396.6 billion in 2024. This would imply revenue forgone of approximately EUR 51.2 billion due to PIT tax expenditures according to the microsimulation (12.9% of EUR 396.6 billion).

[55] Elektronische Steuererklärung (electronic tax declaration). https://www.elster.de/eportal/start.

analysis during audits. Facilitation measures include a dedicated One Stop Shop (OSS) webpage, taxpayer service hotline, and accessible information, though no reminders are sent to taxpayers ([56]).

Germany's e-commerce oversight combines targeted queries and customs collaboration, though full automation and centralised tracking remain limited. The system uses trade codes to identify online retailers, while a separate register for e-commerce traders addresses fraud risks. Collaboration with customs allows tax authorities to access data for investigating potential MTIC fraud, and frequent data exchanges between federal states and the Federal Central Tax Office support OSS oversight. However, there is no centralised e-commerce database, and integration of CESOP ([57]), DAC7 ([58]) or DAC6 ([59]) data is not specified. Oversight remains a mix of manual checks and inter-agency cooperation ([60]).

Germany's qualification of VAT identification numbers upon receipt of a Eurofisc MTIC fraud alerts takes rather long, which the tax authorities attribute, in part, to the territorial structure of the administration. By contrast, invalidation is completed faster, indicating a comparatively shorter process.

4.2 Tax filing and assessment

Germany digitises tax filings, while real-time data use and full automation are still developing. Germany's tax system relies on the ELSTER platform ([61]) for electronic PIT, CIT, and VAT filings, with paper submissions limited to exceptions. The system is designed to be secure, easy to use, and accessible, following strict privacy and accessibility rules. While tax authorities are moving toward faster data processing, with plans for a full digital reporting system by 2030, real-time data sharing is not yet fully in place.

Germany pre-fills PIT returns through the ELSTER portal. However, no substantive pre-filling exists for VAT. While tax authorities use third-party data (e.g. employer reports, bank records) to check submissions and spot risks, this does not seem to translate into pre-filled returns for companies or VAT filers.

Germany's e-filing rates for PIT and VAT are slightly below the EU average. PIT stands at 81.1% (vs. EU 88.4%), VAT at 94.7% (below the EU average), and CIT at 97.0% (around the EU's 97.3%). The gap is widest for individual income tax filings, while corporate compliance is nearly on par with EU levels ([62]).

---

[56] Ibidem.

[57] CESOP is an EU-wide system established under Directive (EU) 2020/284 to support the fight against VAT fraud in e-commerce. It requires payment service providers to report cross-border payment data on a quarterly basis to national tax authorities, which then transmit the information to CESOP. The system centralises and analyses this data, enabling Member States to detect undeclared online sales, identify fraudulent traders, and enhance administrative cooperation in combating cross-border VAT fraud.

[58] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.

[59] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.: automatic exchange of information on potentially tax-harmful cross-border arrangements.

[60] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

[61] ELSTER - Homepage. There is a Rich Client integrated in ELSTER (and in commercial) systems to facilitate the use of the system.

[62] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.

Germany's ELSTER portal digitises tax services effectively but faces regional inconsistencies. The platform supports secure filings, calculators, and taxpayer messaging, backed by phone, and a chatbot for routine queries. While *BundID* enables personalised access, service reliability and user experience may vary across *Länder* due to decentralised administration. Past IT issues highlight the need for ongoing system monitoring ([63]).

Germany makes regular use of data obtained through the automatic exchange of information (AEOI), under the Directive on administrative cooperation in the field of taxation (DAC)s ([64]), **- namely DAC1 ([65]), DAC2 ([66]), and DAC7 ([67]) – for personal and corporate income tax purposes.** The identification of taxpayers concerned in Germany is carried out systematically with mixed results: in 2025, the matching rate ([68]) measuring success in identifying registered taxpayers with DAC1 data is close to 92% for DAC1 ([69]) - above the EU-average (84%) - and 83% for DAC2 – under the EU average 92%.

German tax authorities use the available data for tax risk assessment ([70]) to detect possible undeclared income and, if necessary, to carry out tax assessments. In Germany, this use is not only relevant for personal income tax, but also for inheritance tax and to detect undeclared professional activities, as tax authorities use the most recent exchange of information on income from digital platforms (DAC7). While the German tax authorities were not able to share the matching rate for 2025 related to DAC7, they plan to finalize the process before next year. Like in the past years, in the absence of a central tool gathering, at a federal level, the information from the local tax offices of the 16 federal states (Länder), the estimation of the benefits stemming from the use of AEOI data remains complex. This situation prevents Germany from assessing and sharing the fiscal impact of using DAC data.

Germany has been somewhat active in VAT administrative cooperation ([71]). In 2024, Germany sent 4 930 requests for information and received 6 519 requests ([72]). Based on a standardised measure, taking into account the relative size of the German economy, Germany is

[63] European Commission, Tax Country Fiche – Germany (2025), section 5.2.1; Ministry of Finance of Schleswig-Holstein, Technische Störung bei den Finanzämtern (8 May 2025) (official notice on a technical outage affecting finance offices).
[64] Sources: Yearly Assessment 2026.
[65] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.
[66] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on financial accounts.
[67] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.
[68] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[69] Income from employment, pensions, director's fees, immovable properties.
[70] Tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify situations where specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions.
[71] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.
[72] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

below the EU weighted average on the number of requests sent and in line the EU weighted average on the number of requests received ([73]).

Germany records mixed results in automatic exchange of VAT information. In 2024, Germany reported 13 677 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, it forwarded 7 786 cases. Based on a standardised measure, taking into account the relative size of the German economy, Germany is below the EU weighted average on VAT identification numbers allocated to taxable persons not established in the Member State, but it is above the EU weighted average on the volume of information on new means of transport ([74]).

Germany invests in the digital transformation of its tax administration. Yet coordination across regions remains difficult. Efforts to harmonise a digital solution in all regions are hampered by the lack of a coordinated, comprehensive strategy and process management. A board of experts established by the Federal Ministry of Finance ([75]) has stressed that competences are not concentrated on the level of the Federation. Instead, State-specific ("island") digital solutions are still being brought forward ([76]). One of the Court of Auditor's most pressing recent recommendations to the new German government is to "optimise cooperation of central bodies, prioritising reporting systems ([77]). The use of harmonised coordinated software solutions has been the ultimate goal since the launch of Germany's KONSENS procedure in 2007 (precursory initiatives existed already in the early 1990s ([78])). KONSENS stands for 'coordinated new software-development in tax administration'. It aims at standardizing and bundle tax administration processes across German Länder to improve efficiency and consistency ("concentration without centralization" ([79])). After a series of delays, Germany's Court of Auditors concluded in 2022 that while KONSENS has incurred significant cost, its progress remained slow and it was "not foreseeable when the goal of a unique tax IT system will be achieved, and when the current individual systems will be replaced" ([80]). Indeed, there is evidence that the replacement of existing systems in local tax offices comes with problems and sometimes faces resistance as it may be perceived as imposed from the federal administrative level ([81]). The Count's reiterated its criticism in April 2025, urging the government to come up with a binding overall plan outlining a schedule for

[73] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Germany sent 1.14 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 1.51 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[74] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Germany reported 3.16 VAT identification numbers allocated to taxable persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP; and new means of transport 1.80 requests per EUR 1 billion of GDP compared to an EU weighted average of 0.95 new means of transport per EUR 1 billion of GDP.

[75] Study from the Expert Commission „Bürgernahe Einkommensteuer" ("Citizen-friendly income tax"), final report for the Federal Ministry of Finance (Bundesfinanzministerium), 30 Nov. 2024.

[76] In May 2025 Germany has established a new Federal Ministry for Digitalisation and State Modernisation.

[77] https://www.bundesrechnungshof.de/SharedDocs/Pressemitteilungen/DE/2025/einnahmen.html?nn=23488.

[78] https://dserver.bundestag.de/btd/16/025/1602583.pdf (see pt. 5 on page 3).

[79] Wehmeier, L.M. (2024). Intergovernmental Relations in Digitalization Policy: German Tax Administration Between Centralization and Decentralization. In: New Perspectives on Intergovernmental Relations. Palgrave Studies in Sub-National Governance. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-031-61790-4_9 (pp. 172 ff).

[80] https://www.bundesrechnungshof.de/SharedDocs/Kurzmeldungen/DE/nachrichten/augsburger_erkl%C3%A4rung_kurzmeldung.html.

[81] Wehmeier, L.M. (2024). p. 177.

the cross-Länder rollout of the core IT processes ([82]) while expecting that outdated IT applications carrying operational risks are likely to remain in use until 2027. It also reckons that the overall cost of KONSENS incurred to Federation and Länder meanwhile amounts to around 2 billion Euro ([83]).

4.3 Compliance risk management

Germany's compliance risk management (CRM) system operates without a formal, published strategy, relying instead on fragmented, IT-driven processes. Core tools include the automated Risk Management System (RMS), which flags high-risk tax filings, and data from sources like taxpayer declarations or third-party reports (e.g. banks, employers). The lack of a transparent, overarching strategy risks inconsistencies in enforcement and suboptimal use of resources, compounded by limited coordination between states (Länder) ([84]).

Germany's federal tax system operates rule-based automation and emerging AI for risk assessment, while state adoption remains uneven. The RMS automatically flags tax filings based on predefined risk parameters, sorting cases into low-risk (fully automated), medium, and high-complexity (manual review) tiers. Machine learning refines this process via predictive modelling such as spotting underreporting trends, and bunching analysis e.g. identifying threshold clustering. However, advanced AI, such as natural language processing, is not yet deployed. Current AI applications are used for risk scoring and automated taxpayer prompts, yet state-level uptake has been constrained by IT limitations ([85]).

Germany uses CESOP data for case-by-case reviews. Germany runs small-scale trials (e.g. reviewing online consumer sales) by extracting cases individually, but technical hurdles, such as the lack of seamless data transfer, prevent wider use. Full integration with national tax systems is planned but depends on EU upgrades (due by late 2026) and domestic IT adjustments ([86]).

Germany also uses reports exchanged automatically under the DAC concerning risk of tax avoidance, i.e. DAC3 ([87]), DAC4 ([88]) and DAC6 ([89]), mainly for risk-analysis purposes in the field of corporate income taxation. The tax authorities identified successfully 100% of the taxpayers concerned by DAC3, 59% of the taxpayers concerned by DAC4 reports (the EU average being 92%), and 90% of the taxpayers concerned by DAC6 (the EU average being 90%). DAC3,

[82] Besides ELSTER, core processes also include a new integrated design for tax collection (BIENE) and the basic information service to collect core information about taxpayers such as bank account, name or address (GINSTER). Overall, there are currently 19 different tax-administrative procedures included in KONSENS.

[83] Deutscher Bundestag, 21. Wahlperiode, Drucksache 21/32 vom 15.04.2025: Unterrichtung durch den Bundesrechnungshof nach § 99 der Bundeshaushaltsordnung über Maßnahmen zur Stärkung der Einnahmenbasis; Defizite und Reformbedarf beim Steueraufkommen identifizieren – Handlungsspielräume nutzen.

[84] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Germany, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/5117150.

[85] Ibidem.

[86] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection.

[87] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on rulings and advanced pricing arrangements.

[88] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on country-by-country reports of multinational entities.

[89] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.: automatic exchange of information on potentially tax-harmful cross-border arrangements.

DAC4 and DAC6 are broadly used for risk-assessment (i.e. to identify risks related to transfer pricing, base erosion and profit shifting, harmful tax practices, etc) and possible follow-up actions as general tax audits. Moreover, DAC4 is used for economic and statistical analysis and DAC6 is used to identify possible legal loopholes. This should be seen as a good practice. This comprehensive use of the relevant data suggests that the German authorities have successfully integrated it into an efficient process.

4.4 Audits

Germany's audit system combines risk-based targeting with a tiered compliance approach. The framework includes field audits, single-issue reviews, desk-based risk assessments, and evasion investigations, backed by automated pre-audit checks. Large businesses undergo audits every four years on a rotating schedule, while smaller entities face less frequent reviews.

AI in audits remains limited to targeted tools. The X-PIDER system, developed by the Federal Central Tax Office, uses machine learning to scan e-commerce platforms for undeclared activity, though its accuracy has faced scrutiny from Germany's Court of Auditors. While AI supports audit targeting, it is not yet integrated into broader case selection or real-time monitoring. Current applications focus on identifying high-risk patterns rather than replacing traditional audit methods ([90]).

Germany segments taxpayers by size and risk but lacks specialised units. Germany has no dedicated Large Taxpayer Office (LTO) or HNWI programme. E-commerce taxpayers are managed within standard tax offices, though specialised digital expertise is increasingly applied, particularly for VAT and cross-border online transactions. This approach ensures flexibility but may limit targeted oversight of complex sectors. The focus on risk-based resource allocation, such as the above-mentioned frequent audits for large firms, may compensate for the lack of formal segmentation.

Germany is the most active user of advanced instruments of administrative cooperation provided for in Directive on administrative cooperation in the field of taxation and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. Such instruments entail multilateral controls (MLCs) such as simultaneous controls, joint audits and presence in administrative offices and administrative enquiries (PAOEs). The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025, Germany has initiated 29 MLC and 2 PAOE, and has participated in 65 MLC and 6 PAOE, representing respectively 26.9%, 3.1%, 22.2% and 4.7% of the total of these operations ([91]).

4.5 Payment and collection

Germany has a high level of digital tax compliance for payments, but the picture is incomplete ([92]) for timeliness indicators because no 2024 data are available for CIT, PIT or VAT on-time payment. In 2024, 100% of tax payments were made electronically. Germany had already

[90] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Germany, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/5117150.
[91] EU AIAC Statistics -2023-2025.
[92] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.

reached 100% in 2018. Taxes are ordinarily paid cashless, typically by bank transfer or SEPA direct debit. There is no general nationwide tax-specific cash threshold set in tax law.

Germany applies a structured control approach to VAT refunds and VAT registration ([93]). In the area of advanced VAT returns, a risk management system automatically checks incoming returns for plausibility and anomalies. A VAT identification number can be issued by the Federal Central Tax Office only if the entrepreneur is already registered for tax purposes with the locally competent tax office. Germany also has in place, since 2025, a penalty system for failure to submit VAT returns and for failure to make payments on time, designed around the principles of simplicity and proportionality.

4.6 Tax debt recovery

Germany does not have a common tax recovery strategy/plan, nor does it publish a regular tax recovery activity update. However, according to data from the International Survey on Revenue Administration, Germany is the Member State reporting the third lowest stock of tax arrears in the EU. The closing stock of tax arrears at the end of the year in % of total revenue has remained relatively stable in recent years (data available until 2024). In 2024 it amounted to 3.2%, much below the EU average of 30.7%. The closing stock of collectable arrears as % of the closing stock arears remained broadly unchanged compared to 2023, at 89.1% in 2024 ([94]).

The German Fiscal Code contains the basic regulations of the taxation procedures, including recovery aspects that apply to all types of tax. Yet the competence of recovery of the following different tax types falls within the competence of different authorities (National, State and Municipality tax administrations).

A federal body for coordination exists, but it faces problems. The Federal Central Tax Office (Bundeszentralamt für Steuer – BZSt) is a German federal authority supervised by the Federal Ministry of Finance (BMF). The BZSt performs central tax tasks with national and international relevance across all Federal States. For example, the authority is responsible for withholding taxes, international administrative cooperation and cross-border recovery. However, the BZSt is facing critics, relating to overburdening and understaffing, leading to major bottlenecks in the processing of tax files and enquiries. ([95])

The German tax administration has no information on the average time needed to decide at administrative level on contestations of tax claims ([96]). As older tax debts are more difficult to recover, it is important to avoid lengthy contestations that delay tax recovery efforts. The German law does, however, allow the tax administration to take precautionary measures before there is an assessment/title, without a prior court order. Germany does not have specific legislation on cooperation between the administrator of insolvency proceedings and tax (recovery) authorities ([97]).

[93] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[94] ISORA Data - closing stock and collectable arrears.
[95] For example, in the context of combating tax fraud, the Federal Court of Auditors is regularly calling on the government to equip BZSt with sufficient IT-resources and staff. See, for example, Bundesrechnungshof, press release 05.04.2022 (Beitrag 56).
[96] Germany's replies to questions 12 and 13 of the 2025 survey on tax recovery.
[97] Germany's replies to questions 34-36 of the 2025 survey on tax recovery.

Germany has a policy to write off tax arrears relating to VAT, income taxes and excises in practice. Tax arrears can be reduced by focusing on on-time payment. Germany provides seamless administrative processes that facilitate tax payment. However, there is no information on the proportion of CIT, PIT and VAT payments paid on time.

Regarding cross-border recovery assistance within the EU, Germany submits compliant requests to other Member States. German recovery requests to other Member States generally comply with requirements ([98]), focusing on well-established claims. Only 152 recovery requests were suspended in 2025 following contestations of the claims, while 10 185 requests for recovery were sent to other Member States in the same year ([99]).

Germany has not integrated the AEOI data in its tax recovery strategy at a federal level, with DAC data (DAC1, DAC2 or DAC7) not being used for this purpose, even though this could improve tax collection rates by leveraging international assistance. The Commission has not been informed as to whether this practice is carried out at the level of the Länder.

[98] Statistics on rejections of requests, reported by Germany as applicant State, relating to recovery assistance in 2025.
[99] Statistics on the suspension of recovery requests, sent by Germany as applicant State, following contestation of the claim, for 2025.